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HHS MOVES TO IMPROVE ACCURACY OF AFDC ADMINISTRATIVE COST ALLOC--ETC(U)  
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BY THE COMPTROLLER GENERAL  
**Report To The Chairman  
Subcommittee On Oversight  
House Committee On Ways And Means  
OF THE UNITED STATES**

6 **HHS Moves To Improve Accuracy Of  
AFDC Administrative Cost Allocation:  
Increased Oversight Needed .**

In a review of cost-allocation plans for the Aid to Families with Dependent Children program in California, Illinois, Massachusetts, and New York, GAO found that the Federal Government may be incurring unnecessary charges which, in two of these States, could amount to as much as \$8.6 million annually. GAO and the HHS Office of Inspector General have been reporting similar overcharges for years. HHS is responsible for assuring that State cost-allocation plans, upon which Federal participation in welfare administrative costs are based, accurately reflect the Federal reimbursable share of costs. But HHS' Division of Cost Allocation and its Office of Family Assistance are not adequately evaluating data in State cost-allocation plans, resulting in significant administrative cost overcharges to the Federal Government.

Further, HHS is not requiring States to accumulate and allocate costs in a uniform manner, which prevents HHS from making meaningful cost comparisons between States to identify inefficient operations and assure that the Federal share of costs is appropriate. HHS is developing standard principles and procedures for accumulating and allocating costs.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-197953

The Honorable Charles B. Rangel  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

In response to your Subcommittee's request of July 16, 1979, we made a comparative analysis of the Aid to Families with Dependent Children (AFDC) program management in California, Illinois, Massachusetts, and New York. This is the first of two reports that will be issued as a result of this effort. This report deals with the actions needed to improve Federal oversight of State administrative cost-allocation plans and the need for a uniform method of accumulating and allocating administrative costs by the States.

This report also draws attention to the fact that the Department of Health and Human Services (HHS) has known about the oversight problems for many years but has been ineffective in resolving them. We have made several recommendations to the Secretary of HHS which, if implemented, should result in improved oversight capabilities. HHS has indicated that it will take action on each of these recommendations and is presently developing a system of uniform cost principles, procedures, and methodology for application to all welfare cost-allocation plans which it expects to implement in late 1981.

We asked HHS and the four States to comment officially on a draft of this report. HHS' comments are included in the report. The States' comments were not received within the time allowed under Public Law 96-226 and are not included in the report.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time we will send copies to interested parties and make copies available to others upon request.

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Sincerely yours,

*Milton J. Forster*

Acting Comptroller General  
of the United States

COMPTROLLER GENERAL'S REPORT  
TO THE CHAIRMAN, SUBCOMMITTEE  
ON OVERSIGHT, HOUSE WAYS AND  
MEANS COMMITTEE

HHS MOVES TO IMPROVE ACCURACY  
OF AFDC ADMINISTRATIVE COST  
ALLOCATION: INCREASED OVER-  
SIGHT NEEDED

D I G E S T

The Department of Health and Human Services (HHS) is responsible for assuring that State cost-allocation plans, upon which Federal financial participation in administrative costs for the Aid to Families with Dependent Children (AFDC) program are based, accurately reflect the Federal reimbursable share of costs. But, HHS' principal oversight agencies--the Division of Cost Allocation (DCA) and the Office of Family Assistance (OFA)--are not adequately reviewing, analyzing, and questioning data in State cost-allocation plans either before or after their approval.

GAO's review of administrative costs incurred in California, Illinois, Massachusetts, and New York indicated that the Federal Government may be incurring unnecessary charges which, in two of these States, could amount to \$6.6 million annually. Overcharges are occurring because HHS has not provided DCA and OFA with adequate review guidance, a clear definition of their respective roles for reviewing cost-allocation plan implementation, and sufficient staff to accomplish their work effectively. (See pp. 6 and 8.)

In the four HHS regions encompassing the States GAO reviewed, OFA has 27 staffmembers involved in welfare administrative cost-allocation plan oversight. To perform comprehensive onsite reviews at both the State and local levels, OFA estimates that it would need 48 staff. DCA officials also contend that their staffs are insufficient to accomplish regular onsite verifications. Presently, detailed onsite verifications of a plan or its amendments are not made regularly by DCA and OFA to assure that it correctly reflects the manner and extent to which salaries and other expenditures of State and local organizations benefit Federal programs. (See pp. 8, 9, and 10.)

Adding to the problems of review guidance and lack of staff is HHS' failure to clearly define DCA's and OFA's respective roles for monitoring the implementation of cost-allocation plans after approval. HHS is considering designating DCA as the coordinator for cost-allocation compliance reviews as a means of reducing the confusion over oversight responsibilities, but the specific review responsibilities of DCA and OFA have not been defined. (See p. 10.)

**ERRONEOUS REIMBURSEMENT CLAIMS:**  
**A LONGSTANDING PROBLEM**

HHS has known about these problems for years but to date has been ineffective in correcting them. In 1964, 1967, and 1972, GAO reported to the Congress that HHS paid excessive amounts to States for public assistance administrative costs because it did not insure that claims for reimbursement were proper before paying them. In 1972, GAO recommended that the Secretary of HHS insure that States properly claim costs. HHS responded that it was exploring ways of monitoring which would permit early detection and correction of deficient State procedures and more timely adjustment of excessive State claims.

In 1977 HHS' Inspector General compiled a summary report on audits of administrative costs claimed under the AFDC program. In the 36-month period ended August 31, 1977, the Inspector General issued 66 reports which questioned \$78.2 million claimed by States as not eligible for Federal reimbursement. (See pp. 7 and 8.)

From 1977 to 1980, HHS auditors conducted eight more administrative cost audits in California, Illinois, Massachusetts, and New York and although the scope of these audits varied significantly and only one focused on a review of the AFDC program, the auditors questioned \$31.7 million in reimbursement claims and cost allocations. (See p. 11.)

VARYING COST-ALLOCATION  
METHODOLOGIES IMPEDE  
COST COMPARISONS

HHS has not required a uniform method of accumulating and allocating States' costs and has approved some methods which cannot assure that administrative cost expenditures in a given program are as directly proportional to the administrative support received as possible. The varying methods of cost allocation also preclude HHS from making meaningful comparisons of administrative cost expenditures among States.

Federal Management Circular 74-4, dated July 18, 1974, establishes the accounting principles and standards to be used by the States in determining costs allowable for Federal reimbursement under any Federal grant program. But the circular does not specify how administrative cost pools should be designed or what the basis for distributing costs to benefiting programs should be. Further, HHS has not developed guidelines for distributing costs in welfare cost-allocation plans and does not require States to distribute administrative costs on any standardized basis. States are allowed considerable latitude in developing cost accumulation and allocation methodology. (See pp. 15, 16, and 17.)

CORRECTIVE ACTION UNDERWAY

In August 1979, HHS' Assistant Secretary for Management and Budget recommended that a welfare cost-allocation guide establishing uniform cost principles and accumulation methodology be developed for use by HHS and States. The Assistant Secretary believed that such a guide was needed because there was a lack of adequate and specific guidance that could be used by States, OFA and DCA to fulfill their respective responsibilities. In response to the Assistant Secretary's recommendation, a task force was established--consisting of State and HHS personnel--to develop such a guide. The proposed guide, which was still in draft form as of March 9, 1981, sets forth principles and procedures for accumulating and allocating administrative costs incurred by State public assistance agencies for programs authorized by the Social Security Act. (See p. 16.)

HHS personnel informed GAO that the provisions of the guide will not be inserted in regulations. But if States cannot demonstrate that their proposed or current method will produce equitable results, DCA personnel will be instructed to challenge any new plan submissions or amendments which are not in compliance with the terms of the guide. States with approved plans will be subject to audit exceptions on claimed costs by OFA and the HHS Audit Agency. HHS' General Counsel stated that HHS can issue an enforceable cost-allocation policy through an appropriate combination of regulations and other policy issuances. (See pp. 21 and 22.)

RECOMMENDATIONS TO THE  
SECRETARY OF HHS

GAO recommends that the Secretary

- define the specific cost-allocation plan review and monitoring responsibilities of DCA and OFA;
- develop adequate guidelines for DCA/OFA use in future cost-allocation plan review efforts;
- evaluate existing staffing and workload levels to assure that both DCA and OFA have the technical capacity and numerical strength to effectively review, approve, and monitor the implementation of cost-allocation plans and claims for reimbursement;
- issue guidelines establishing a system of uniform cost principles, procedures, and methodology for all welfare cost-allocation plans;
- instruct DCA and OFA to conduct comprehensive reviews of State cost-allocation plans to identify areas in which the Federal Government may be bearing more than its fair share of AFDC administrative costs; and
- instruct DCA and OFA to follow up on GAO's findings to assure that Federal funds are recovered. (See p. 25).

#### AGENCY COMMENTS

HHS generally agreed with GAO's findings and recommendations and stated that it is taking or planning a number of steps to improve State cost-allocation plans, and to strengthen its reviews of new plans and its monitoring of State compliance with existing plans. GAO also asked the four States to comment officially on a draft of this report. The States' comments were not received within the time allowed under Public Law 96-226 and are not included in the report. (See pp. 25, 26, and 27.)



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#### ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
DCA	Division of Cost Allocation
EEOR	Expanded Eligibility Operational Reviews
GAO	General Accounting Office
HHS	Department of Health and Human Services
OFA	Office of Family Assistance
POC	Principal Operating Component
SSA	Social Security Administration

## CHAPTER 1

### INTRODUCTION

On June 15, 1979, during hearings before the Subcommittee on Oversight, House Committee on Ways and Means, we and others presented information regarding the comparative effectiveness and efficiency of various States in managing the Aid to Families with Dependent Children (AFDC) program. Testimony indicated that administrative costs on a per-case basis vary significantly among States with no apparent correlation between these costs and rates of erroneous payments. The Subcommittee was interested in exploring this issue further and requested us to make a comparative analysis of AFDC program management in California, Illinois, Massachusetts, and New York. Specific emphasis was requested on our observation of differences in management practices, agency organization, and employee accountability as they related to administrative costs and the level of erroneous payments.

This report deals with the problems encountered by the Department of Health and Human Services' (HHS') Division of Cost Allocation (DCA) and Office of Family Assistance (OFA) in assuring that the Federal Government bears only its fair share of AFDC administrative costs. Another report, to be issued later this year, will deal with the importance of accurate, comparable cost data to help local managers administer their programs, set performance standards to improve program efficiency, and test the cost effectiveness of new and innovative methods of administration. This latter report will also address management practices, agency organization, employee accountability, and their potential impact on the level of erroneous payments in California, Illinois, Massachusetts, and New York. Both reports should be useful to the Subcommittee in its quest for ways to reduce AFDC administrative costs and erroneous payments.

### ADMINISTRATIVE COSTS VARY

In fiscal year 1980, the cost to administer the AFDC program exceeded \$1 billion for the 6th consecutive year. A 1977 HHS study estimated that 81 percent of these costs represent personnel salaries and benefits. The other costs are attributable to computer services, rent, utilities, and other general services. The Federal Government pays 50 percent of these costs, while the remainder is absorbed by States and local governments.

During congressional hearings in 1977, an HHS Deputy Commissioner stated that the administrative cost per case varies significantly from State to State, and there appears to be no direct relationship between the level of administrative spending and the level of erroneous payments made to AFDC recipients. In fiscal year 1979, the four States we reviewed had the following administrative cost and error rate profile.

	Average monthly AFDC caseload	Total cost for admin- istration	Aminis- trative cost per case	Percentage of total payments made to individ- uals and overpaid <u>10/78</u> <u>4/79</u> to 3/79 to 9/79
California	480,405	\$236,370,979	\$492	7.2 7.8
Illinois	207,849	82,841,092	399	13.8 11.9
Massachusetts	121,930	38,893,960	319	24.8 22.4
New York	370,232	258,739,997	699	10.3 8.8

#### COST-ALLOCATION PLANS

To qualify for Federal financial participation in its AFDC administrative costs, each State must have an approved welfare program plan and cost-allocation plan on file with the Social Security Administration (SSA) Regional Commissioner who has cognizance over OFA activities in that region. The welfare program plan contains a description of the nature and scope of the program--in this case AFDC--and a promise by the submitting State to administer its plan according to Federal statutes and regulations. The cost-allocation plan describes how administrative costs will be identified, accumulated, and distributed to the respective public assistance programs. More specifically, cost-allocation plans are intended to identify those costs that are attributable exclusively to the AFDC program, those which are common to two or more programs, and the methodology used to assign costs to benefiting programs in proportion to the administrative services received.

All cost-allocation plans must comply with the provisions of the General Services Administration's Federal Management Circular 74-4 and provide for

- consistent treatment of similar items of cost,
- direct charging to particular programs of all possible costs that can be reasonably identified,
- identification of the bases and procedures being used that assure fair and equitable treatment of costs, and
- identification of the methodology used for measuring and assigning costs to a particular function.

#### COST-ALLOCATION METHODOLOGY

HHS does not require States to use a standard cost-allocation methodology. Rather, it approves any method that it believes meets established cost principles as cited in Federal Management Circular 74-4. In the States we reviewed, HHS approved cost-allocation plans that distributed personnel costs on the basis of case count (New York), recipient count (Illinois 1976), standard caseloads (Illinois 1980), time studies (California), and a combination of

direct charging and weighted case count (Massachusetts). Other costs, such as rent, utilities, and computer services, were either directly charged to the AFDC program or allocated on the bases appropriate to those charges (e.g., rent allocated on the basis of square footage). A brief description of how AFDC personnel costs are determined under each of these methods follows:

- Case count. Personal service costs are allocated to the AFDC program based on the number of AFDC cases processed. For example, if 50 percent of New York City's welfare caseload consisted of AFDC cases, then 50 percent of the total welfare personnel cost pool would be allocated to AFDC.
- Recipient count. Personal service costs are allocated based on the number of recipients receiving benefits under the AFDC program. For example, if the total welfare roll consisted of 250,000 and of those 200,000 were receiving AFDC, then 80 percent of the State's welfare personnel cost pool would be allocated to AFDC.
- Standard caseloads. Personal service costs of each welfare office are allocated to the AFDC program based on the number of standard AFDC caseloads in each office. For example, if the standard workload for a caseworker is 100 cases for AFDC and 200 for general assistance and the total workload for the welfare office is 600 AFDC cases and 600 general assistance cases, then the office has 6 standard AFDC caseloads (600 divided by 100) and 3 standard, general assistance caseloads (600 divided by 200). Hence, two-thirds of the office's administrative costs will be charged to AFDC and one-third will be charged to general assistance.
- Time study. Personal service costs are allocated based on time and effort expended on the AFDC program as reported in employee time studies. Time studies are done for 1 month each calendar quarter wherein an employee is asked to record the exact amount of time spent each day on the various programs for which he or she is responsible. The data are then used to determine the amount of welfare personnel costs to be allocated to the AFDC program.
- Direct charge and weighted case count. Personnel costs are assigned to functions based on time studies. If a person spends more than half of his or her time on a particular program, he or she is assigned to that program function and his or her entire effort is directly charged to that program. Salaries of personnel who do not spend more than half their time in any one program are allocated to programs based on a weighted number of cases receiving benefits from those programs.

## APPROVAL OF COST-ALLOCATION PLANS

Federal Management Circular 74-4 gives HHS prime responsibility for negotiating, approving, and auditing all welfare cost-allocation plans submitted by States. In 1978, HHS delegated responsibility for negotiating and approving State cost-allocation plans to DCA and gave it a mandate to assure that the Federal Government bore no more than its fair share of administrative costs in any welfare program. In carrying out this mandate, DCA relies heavily on the five HHS Principal Operating Components (POCs)--SSA for the AFDC program, the Office of Human Development Services for the Social Services program, the Office of Child Support Enforcement for the Child Support Enforcement program, the Health Care Financing Administration for the Medical Assistance program, and the Office of Refugee Resettlement for refugee programs--as well as other Federal agencies, such as the Department of Labor, because they are familiar with the States' organizational structure and, according to DCA officials, can identify inconsistencies in plan submissions.

Cost-allocation plans must be acted upon by DCA within 60 days of receipt. The action must be a written notice to the State either approving the plan or advising of changes needed for approval. To meet this time frame, DCA, upon receipt of a plan or amendment, immediately sends a copy to the POCs, which have 30 days to review and comment. DCA considers POCs' comments and, if it agrees, incorporates them into its overall draft position on the plan. DCA then discusses the draft with the POCs to determine a final position. Although final approval authority rests with DCA, a POC has several levels of appeal--up to the HHS Undersecretary for Intergovernmental Affairs--if it disagrees with DCA's decision. Once a cost-allocation plan is approved by DCA, amendments are required only when changes are made in State organization or policy, or when changes in Federal regulations or legislation would cause a State's existing cost-allocation methodology to become outdated. There is no requirement for periodic updating or resubmission of the plan. But, once operational, the plan and its implementation are subject to review by the HHS Audit Agency, DCA, the POCs, and us to assure that the administrative costs are accurately stated and the Federal Government is bearing only its fair share of the costs.

## OBJECTIVES, SCOPE, AND METHODOLOGY

We made our review:

--At the headquarters locations of OFA and the Office of Grants and Procurement, Washington, D.C., and OFA and DCA offices in Federal regions I (Massachusetts), II (New York), V (Illinois), and IX (California).

- In New York, at the State Department of Social Services, Albany; the New York City Human Resources Administration; the Albany County Department of Social Services, Albany; and the Erie County Department of Social Services, Buffalo.
- In Massachusetts, at the Department of Public Welfare, Boston.
- In Illinois, at the Department of Public Aid, Springfield, and Chicago.
- In California, at the Department of Social Services, Sacramento; the Los Angeles County Department of Social Services, Los Angeles; and the Sacramento County Welfare Department, Sacramento.

The objective of this review was to identify the managerial policies and practices--and organizational conditions--in DCA and OFA that could impact on the effectiveness of their analysis of State cost-allocation plans and State claims for reimbursement of AFDC administrative costs. We interviewed regional and headquarters officials from DCA and OFA regarding their cost-allocation plan review and approval process and their efforts to evaluate cost claims and allocation procedures. Opinions on the adequacy of their review effort and staffing levels were also solicited. HHS officials from the Office of the Assistant Secretary for Management and Budget were interviewed regarding HHS' efforts to promote a uniform cost-allocation methodology, and an HHS General Counsel opinion was obtained on whether a uniform cost-allocation methodology would have to be legislatively mandated or could be established through either existing or new regulations.

At State and local government levels, we reviewed cost-allocation plans and examined cost allocations made to the AFDC program. When we suspected a compliance problem or methodology inequity, we followed up by reviewing the workload and functions of State and local staff charged to AFDC to determine the extent their activities benefited the program. We also traced parts of Federal claims to the supporting accounting records. However, our review was not a systematic financial review of all administrative charges to AFDC. While all the deficiencies we cite are documented, the scope of our review was such that other cost-allocation deficiencies may still remain undisclosed.

## CHAPTER 2

### BETTER FEDERAL OVERSIGHT IS NEEDED

#### TO REDUCE THE NUMBER OF ERRONEOUS

#### ADMINISTRATIVE COST REIMBURSEMENT CLAIMS

HHS is responsible for assuring that State cost-allocation plans, upon which Federal financial participation in AFDC administrative costs are based, accurately reflect the Federal reimbursable share of costs. But, HHS' principal oversight agencies--DCA and OFA--are not adequately reviewing, analyzing, and questioning data in State cost-allocation plans before or after their approval. Our limited review of administrative costs incurred in California, Illinois, Massachusetts, and New York indicated that the Federal Government may be incurring unnecessary charges which, in two of these States, could amount to \$6.6 million annually. This situation is occurring because HHS has not

- properly defined DCA's and OFA's duties and responsibilities with respect to monitoring the implementation of cost-allocation plans,
- provided DCA and OFA with sufficient staff, and
- provided DCA and OFA with adequate review guidelines for approval and implementation of cost-allocation plans.

#### LIMITED HHS REVIEW OF STATE COST- ALLOCATION PLANS RESULTS IN SIGNIFICANT OVERCHARGES TO THE AFDC PROGRAM

HHS has neither established an indepth review procedure for cost-allocation plans nor clearly assigned review responsibility to its oversight organizations. This, coupled with a shortage of staff in both DCA and OFA, has resulted in inadequate reviews of cost-allocation plans both before plan approval, and for compliance after approval. Our examination of four States' cost-allocation plans indicated that, in two of these States, inappropriate or unnecessary charges totaling \$6.6 million annually may be billed to the Federal Government. In our view, most of these charges could have been detected by an effective preapproval or postapproval review by DCA or OFA. Many deficiencies involved simple direct charging issues wherein costs identifiable to non-Federal programs were incorrectly allocated to AFDC. Conversely, costs that benefited both AFDC and non-Federal programs were charged solely to AFDC. Other deficiencies involved duplicate charges and clerical errors. All have been discussed with State and Federal officials and, in some instances, actions were immediately taken to assure that necessary adjustments were made to reimburse the Federal Government.



The significance of our findings is that they represent a restatement of problems that HHS knows about but to date has been ineffective in correcting. In 1964, 1967, and 1972, we reported to the Congress that HHS paid excessive amounts to States for public assistance administrative costs because HHS did not insure that the claims for reimbursement were proper before paying them. In 1972, we recommended that the Secretary of HHS insure that States properly claim costs. HHS responded that it was exploring ways of monitoring that would permit early detection and correction of deficient State procedures and more timely adjustment of excessive State claims.

In 1977, HHS' Office of Inspector General compiled a summary report on audits made by its Audit Agency of administrative costs claimed under AFDC. In the 38-month period ended August 31, 1977, the Inspector General issued 66 reports that questioned \$78.2 million claimed by the States as not eligible for Federal reimbursement. The Inspector General found that States overstated their administrative cost claims and concluded that:

- States have promulgated inadequate guidelines dealing with identification and allocation of administrative costs under public assistance titles of the Social Security Act.
- States have failed to follow the guidelines that were promulgated.
- States have not adequately monitored local expenditures and the application of cost distribution and allocations.

In addition, the report noted that:

"\* \* \* the Audit Agency has been conducting such audits on a cyclical basis for more than ten years and the States continue to report inaccurate expenditures resulting in significant overclaims of Federal funds."

To overcome the deficiencies identified, the HHS Inspector General recommended that SSA, in meeting State agencies' claims for reimbursement and ensuring compliance under existing Federal regulations, more aggressively:

- Review State agency quarterly expenditure reports to insure that administrative costs claimed meet all Federal regulatory criteria.
- Review and coordinate the approval of cost-allocation plans between all responsible divisions within HHS and with other Federal departments, to insure plans meet Federal regulations.

--Monitor the implementation and application by States of the approved cost-allocation plans to insure equitable distributions of costs to all benefiting programs.

--Monitor State agency implementation of Audit Agency recommendations to insure corrective action is taken.

SSA agreed with the Inspector General's recommendation for more aggressive oversight, and OFA later issued guidelines to its regional offices for reviewing quarterly expenditure reports. The shortcomings in these guidelines will be discussed later in this chapter.

In December 1978, an HHS management review of OFA cited lack of staff and insufficient regional cost-allocation guidance as basic financial management problems within that office. This report emphasized the need for additional OFA staff and substantive cost-allocation guidance and policies to establish a sound financial management program that adequately deals with administrative costs.

HHS should better define DCA/OFA oversight responsibilities and reevaluate staffing levels

HHS has not provided DCA and OFA with adequate review guidance, a clear definition of their respective roles, and sufficient staff to accomplish their work requirements. This has resulted in an ineffective preapproval and postapproval review program of AFDC cost-allocation plans.

To assure that a cost-allocation plan meets the requirements of Federal Management Circular 74-4 and qualifies for approval, DCA analysts should review the plan to evaluate

- the functions and activities of each State and local organizational unit cited in the plan,
- the estimated costs for a 1-year period by cost pools that include the costs of all organizational units of the State department in which the State agency receiving the grant is located,
- the basis used for allocating the various cost pools to programs and activities and the justification for each, and
- any other information necessary to document the validity of the cost-allocation methods and procedures.

But, no formal guidelines are available to the analysts in performing this review. Their efforts consist primarily of desk

reviews wherein a new plan or amendment to an existing plan is judged on the basis of content and the analysts' knowledge of State and local operations. Further, DCA regional officials believe that their staffs are too small to perform onsite verifications regularly and depend heavily on input from OFA personnel located onsite at the State level who are relied upon to identify any inconsistencies in the plan during their review. DCA officials recognize the importance of onsite verification of State plans because it allows an analyst to question operating personnel, review the States' and localities' organizational structures and, ultimately, assure that the plan correctly reflects the manner and extent that salaries and other expenditures of State and local organizations benefit Federal programs. However, OFA analysts rarely perform onsite verifications at the local level and, thus, cannot verify all aspects of the plan to insure its accuracy. Since most administrative costs are incurred at the local level, onsite verifications are essential.

Once DCA approves a cost-allocation plan, a State can submit quarterly claims to HHS that provide the basis for Federal reimbursement. These claims statements show the unexpended grant authorization from the previous quarter, authorizations made during the quarter being reported on, authorizations received during the quarter for the last quarter, the net Federal share of expenditures reported in the period, and the unexpended grant authorization at the end of the quarter. The claim is submitted with supporting schedules to HHS, and OFA has the responsibility for assuring that it accurately reflects the administrative costs incurred. To do this, OFA has established procedures which require that analysts

- review the States' claims statements in the regional office for consistency, support, and mathematical accuracy;
- perform onsite reviews of expenditures if the regional office review raised questions concerning expenditures reported or detected errors on the report;
- determine at the State agency that costs for the AFDC program are allocated in accordance with the methodologies in the cost-allocation plan approved for the period reported on;
- determine at the State agency whether organizational or other changes have been made that would invalidate the last approved plan; and
- determine whether the State agency has reviewed the local government cost-allocation plans to determine that costs are allowable and allocated to the local agency operating the AFDC program only to the extent that benefits are actually received.

These procedures are accompanied by detailed audit steps that govern the OFA review of quarterly claims submitted by States. But, they do not require OFA analysts to perform work at the local level that--particularly in State-supervised programs, such as New York and California--would seem necessary to insure the validity of the costs of local operations charged to the AFDC program. Thus, OFA analysts have difficulty determining whether the local governments' (1) costs charged to the AFDC program have been allocated in accordance with the cost-allocation plan on file and (2) cost-allocation plan continues to provide that costs are allowable and allocated to the local agency operating the AFDC program only to the extent benefits are received.

Regional OFA officials recognize that these problems can be overcome through onsite field reviews. But, OFA is handicapped by a lack of staff. In the four regions under review, OFA has assigned 27 staffmembers to welfare administrative cost-allocation plan oversight. To perform comprehensive onsite reviews at both the State and local levels, OFA officials estimate that 48 staffmembers would be needed--11 in region I (Massachusetts), 12 in region II (New York), 13 in region V (Illinois), and 12 in region IX (California)--an increase of 21.

Adding to these problems, DCA and OFA do not have a clear definition of their respective roles for monitoring the implementation of cost-allocation plans after approval. An official in the office of HHS' Assistant Secretary for Management and Budget <sup>1/</sup> informed us that OFA is responsible for assuring the proper implementation of an approved plan. He believes, however, that DCA should have that duty or share it with HHS' Audit Agency. DCA regional officials had varying opinions on their oversight responsibilities. Some believed postapproval review was their responsibility and were either gearing up to begin onsite reviews of plan implementation or already doing them occasionally. Others were not performing the reviews because they lacked adequate staff or were not sure if it was their responsibility. OFA regional officials believe that reviewing the plan is their responsibility but contend that they have not been provided with either the guidance or the resources to perform this function adequately.

HHS is considering designating DCA as the coordinator for cost-allocation compliance reviews as a means of reducing the confusion over which agency has oversight responsibility. But, the specific review responsibilities of DCA and OFA have still not been defined.

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<sup>1/</sup>DCA is functionally responsible to the Assistant Secretary for Management and Budget, Office of Grants and Procurement. OFA reports to the Associate Commissioner of SSA.

Federal Government is paying  
for administrative costs which  
do not qualify for reimbursement

DCA and OFA regional personnel agree that there are limitations in the administrative cost review process and indicate that they rely on the more comprehensive audits periodically performed by the Audit Agency to identify any deficiencies they missed. In fact, since 1977 HHS has issued two welfare cost-allocation reports in New York, one in Massachusetts, two in Illinois, and three in California in which it questioned \$31.7 million in State claims to Federal programs. But, the scope of these audits varied significantly, and only one focused on a review of AFDC administrative costs.

In December 1978, the HHS Associate Commissioner of SSA issued an internal management study, which indicated that OFA cannot rely wholly on the Audit Agency to meet all of its financial management needs. In his opinion, the Audit Agency should be viewed as the internal auditor of the Secretary of HHS, and when the Audit Agency reviews a State agency, it should be rare when its findings present something new to OFA management. The study concluded that both DCA and OFA are responsible for insuring the accuracy of State cost-allocation plans, and OFA is responsible for insuring the accuracy of claims for Federal reimbursement.

We agree with the findings of the management study and believe that DCA and OFA should take immediate action to improve their oversight efforts. Our review in New York and Massachusetts revealed 10 deficiencies totaling about \$6.6 million annually in potential overcharges to the Federal Government that could have been detected by either DCA or OFA had more effective reviews been made. Seven of the deficiencies totaling \$2.1 million are discussed in appendices I through IV and include duplicate charges, erroneous cost allocations, and noncompliance with Federal criteria. Two deficiencies totaling \$4.0 million are discussed below as examples of how the Federal Government can be overcharged when the oversight function of both DCA and OFA is ineffective. Another deficiency of \$431,000 is discussed in chapter 3. All deficiencies were discussed with State, DCA, or OFA regional personnel and, in some instances, corrective action is being taken.

Our first illustration involves erroneous charges of non-AFDC costs to the AFDC program in Massachusetts.

--The Massachusetts Department of Public Welfare's Entry Payments Unit determines applicants' eligibility for all public assistance programs. Since this unit serves many programs, its administrative costs are allocated on the basis of the number of applications received for each activity. If a person is seeking both AFDC and Medicaid, Medicaid eligibility will also be determined in this unit, and the cost

of determining eligibility will be charged to AFDC. If an applicant is seeking medical assistance only, eligibility is determined by a separate "Medicaid only" unit whose administrative costs are directly charged to the Medicaid program.

Since May 1979, the Department has been including applications that are handled by the "Medicaid only" unit (whose costs had already been charged directly to Medicaid for 50-percent reimbursement) in the total number of applications used to allocate costs of the Entry Payments Unit to AFDC. As a result, the number of cases attributable to AFDC were overstated, and AFDC administrative costs were over-allocated about \$1.2 million from May 1979 to March 1980. Fifty percent (\$626,000) of this amount was reimbursed by the Federal Government.

According to Department of Public Welfare officials, the State included the medical assistance applications in the AFDC allocation because it misinterpreted a DCA decision permitting the cost of determining Medicaid eligibility for AFDC cases to be charged to the AFDC program. State officials agreed in principle that this was not a permissible charge and are currently trying to determine what they consider to be a fair and equitable adjustment to their quarterly expenditure claim.

We discovered this misallocation when reviewing cost-allocation worksheets which the State uses to allocate the administrative costs of operating units to benefiting programs. During this review, we noticed an 18-percent increase in the portion of Entry Payments Unit costs allocated to the AFDC program from April 1979 to May 1979, and a leveling of costs at this higher rate from May 1979 to March 1980. We questioned the increase and brought it to OFA's attention. OFA regional officials stated that they should have identified the error during their review of the quarterly claim and agreed not to reimburse the State for any similar claims in the future. They added that they are in the process of recommending to their central office that a retroactive adjustment be made for the full amount of the overclaim.

Our second illustration involves an approved amendment to the New York State cost-allocation plan that caused an erroneous shift of title XX social services costs to the AFDC-foster care program under title IV-A of the Social Security Act. Under title XX, States receive Federal reimbursement with established ceilings to cover the costs of providing or arranging for social services, such as foster care to needy persons. When the ceiling is exceeded, the State begins transferring the administrative costs associated with arranging for AFDC-foster care from title XX to title IV-A through a process called intertitle transfers. But, we discovered

an error in the transfer process used in New York City that could have resulted in the Federal share of AFDC administrative costs being erroneously increased \$3.4 million annually. Specifics of this case follow:

--Once each month all local social services districts in New York State identify a segment of their social services workers' time as attributable to AFDC-foster care. New York City identifies its segment through a random moment sample <sup>1/</sup> of its workers' time. The percentage of time identified through this sample as being spent on AFDC-foster care is then applied to the title XX services administrative cost pool to determine the costs to be transferred to title IV-A.

In April 1979, New York State issued a change to its cost-allocation plan. The change was intended to make data contained in the schedule used by New York City to perform its AFDC-foster care transfer computation more compatible with the State's new financial data-processing system. While the change was not supposed to affect cost-allocation methodology, it had the effect of adding a new set of costs to the title XX services administrative cost pool against which the AFDC-foster care transfer percentage is applied. The new costs were for Day Care Placement and Senior Citizen Centers--neither of which was previously included in the services administrative cost pool that is allocated to AFDC-foster care.

Including Day Care Placement and Senior Citizen Center administrative costs in the cost pool used to identify the AFDC-foster care transfer amount is erroneous. Neither program benefits AFDC-foster care, and both are purposely excluded from the sample used to determine the AFDC-foster care transfer amount.

Because of this procedural change, the cost base from which the transfer calculation was made increased dramatically and, from April to September 1979, New York City erroneously identified \$2.02 million (Federal share) as available for

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<sup>1/</sup>Random moment sampling or work sampling is a technique for scientifically determining the amount or level of effort spent by a group of workers on various activities. It consists of individual observations of worker activity taken at random intervals. Based on this representative number of observations, the total effort of a class or group of employees can be determined with a high degree of confidence that if all employees were observed 100 percent of the time, results would be about the same.

transfer from title XX to title IV-A. New York State transferred \$686,000 of this amount to AFDC and received full Federal reimbursement. During the first 10 months of fiscal year 1980, New York City misidentified an additional \$2.53 million as available for transfer to AFDC title IV-A.

New York State officials agreed with our assessment and are processing a retroactive adjustment for \$686,000 to reimburse the Federal Government for the overclaim made in fiscal year 1979. Action has also been taken to stop the transfer of \$2.53 million previously earmarked for AFDC-title IV-A.

Both DCA and OFA analysts reviewed New York's amendment before its approval on March 31, 1980. When confronted with the ramifications of the amendment, regional officials stated that they did not notice the effect of the schedule change on the AFDC-foster care shift during the desk audit because they were preoccupied with other aspects of the schedule. In our opinion, a thorough desk review could have shown the fiscal effect of the change, but only a field review of how New York City performs its random moment sample could show the error involved in the change. Specifically, when the State first submitted the proposed cost-allocation plan change, a mathematical comparison of the old and new New York City schedules would have shown a dramatic increase in the costs identified as available for shifting to AFDC. But, the transfer would still have been legitimate if the services' sample had included Day Care and Senior Citizen Center staff. We determined that the sample did not include these staff by interviewing local officials.



### CHAPTER 3

#### COST-ALLOCATION METHODS DO NOT INSURE EQUITABLE DISTRIBUTION OF COSTS TO WELFARE PROGRAMS

State methods to accumulate and allocate administrative costs for the AFDC program vary significantly. Many methods do not reflect the actual time and effort expended by employees on the program and, thus, do not accurately reflect administrative costs. As a result, HHS management can neither make meaningful cost comparisons between States to identify inefficient operations, nor assure that the expenditures it is making for the Federal share of administrative costs are appropriate. Federal Management Circular 74-4, dated July 18, 1974, establishes the accounting principles and standards to be used by States in determining costs that are allowable for Federal reimbursement under Federal grant programs, but does not specify how administrative cost pools should be designed, or what the basis for distributing costs to benefiting programs should be. In turn, HHS has not developed guidelines for distributing costs in welfare cost-allocation plans and does not require the States to distribute administrative costs on any standardized basis. States are allowed considerable latitude in developing cost accumulation and allocation methodology.

HHS is attempting to compensate for this lack of uniformity by developing a welfare cost-allocation guide for use by States. When implemented, this guide will set forth the principles and procedures for accumulating and allocating administrative costs and recommend the use of a single cost-allocation method for personal services costs--random moment sampling. Use of methods cited in the guide will be mandatory unless States demonstrate that an alternative method will produce equitable results. Personnel in HHS' Office of Management and Budget stated that its provisions will provide the basis for approval of new--and amendments to existing--plans, as well as audit exceptions by DCA, OFA, and the HHS Audit Agency on both new and existing plans, and amendments to existing plans.

#### REQUIREMENTS OF FEDERAL MANAGEMENT CIRCULAR 74-4

Federal Management Circular 74-4 requires that administrative costs be allocated to each Federal program according to the actual administrative support received. The administrative costs attributable to a grant program are comprised of allowable direct costs that can be identified specifically with a particular program plus the allocable portion of allowable indirect costs. Indirect costs are those incurred for a common or joint purpose benefiting more

than one program and not readily assignable to a specific program. Federal Management Circular 74-4 identifies the principles and standards to be used for determining both direct and indirect costs chargeable to Federal grants and contracts with State and local governments. Joint or common costs chargeable against these grants and contracts must be identified in cost-allocation plans approved by DCA. These plans must also identify

- the nature and extent of services provided and their relevance to the federally sponsored programs,
- the items of expense to be included, and
- the methods used to distribute costs.

Federal Management Circular 74-4 does not, however, specify how administrative cost pools should be designed or what the basis should be for distributing costs to benefiting programs.

In August 1979, HHS' Assistant Secretary for Management and Budget recommended that a welfare cost-allocation guide establishing uniform cost principles and accumulation methodology be developed for HHS and States. The Assistant Secretary believed that such a guide was needed because there was a lack of adequate and specific guidance that States, OFA, and DCA could use to fulfill their responsibilities. In response to the Assistant Secretary's recommendations, a task force was established--consisting of State and HHS personnel--to develop such a guide. The proposed guide, which was still in draft as of March 9, 1981, sets forth principles and procedures to accumulate and allocate administrative costs incurred by State public assistance agencies for programs authorized by the Social Security Act. Unlike previous guides, this one relates specifically to the preparation of welfare cost-allocation plans. Two of its basic tenets are a clarification of Federal Management Circular 74-4 requirements for direct charging of costs to specific programs to the maximum extent possible, and the distribution of multiprogram personnel costs based on random moment sampling. Properly implemented, random moment sampling provides an objective basis for identifying management, budgeting, and accounting data in large complex organizations. In addition to its objectivity, this method of sampling can be done with a minimum expenditure of funds.

Random moment sampling has been applied in private industry and is currently being used by some public assistance agencies as a basis to distribute personnel costs to a particular program or service activity.

VARYING COST-ALLOCATION METHODOLOGIES  
IMPEDE COST COMPARISONS AND FOSTER  
OVERCHARGES TO THE FEDERAL GOVERNMENT

HHS has not required a uniform method of accumulating and allocating States' costs and has approved some methods which cannot assure that administrative cost expenditures in a given program are directly proportional to the administrative support received. In the States reviewed, cost-allocation plans based on case count, recipient count, time studies, and a combination of weighted case count and direct charging, have been approved by HHS. We and the HHS Audit Agency have found drawbacks in these techniques. Of equal importance, however, is the fact that these cost-distribution methodologies vary so significantly in their ability to allocate costs according to benefits received, that they preclude meaningful analysis and comparison of administrative cost expenditures among States.

HHS is aware of this situation. An excerpt from a 1979 report by HHS' Assistant Secretary for Management and Budget states that:

"There is a significant disparity among States, and among programs within a State, in the level of costs incurred in administering public assistance programs. This disparity is caused in part by the inconsistent costing techniques used by the States to relate common costs to benefitting programs. One of the consequences of this condition is that cost comparisons are meaningless, and thus, there is no effective way to determine which agencies are cost efficient and which are not." 1/

Complete and accurate cost data are also crucial to effective day-to-day management of the AFDC program. The overall management of the program will be discussed in a forthcoming report on our comparative analysis of the AFDC program in California, Illinois, Massachusetts, and New York.

New York--case count

New York State allocates most of its State and local income maintenance administrative costs to each welfare program on the basis of the number of public assistance cases receiving benefits from those programs. This method might be acceptable if all cases were equally difficult to maintain and the level of activity on all cases were equal. But the activity level is very different between Federal and non-Federal cases, and New York has never

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1/"Study Report: Study of Cost Allocation Plans for Public Assistance Programs, July 1979."

demonstrated that these cases are equally difficult to maintain. Further, case count is not a record of the time and effort spent on a case. The following cases illustrate this point.

--An AFDC family in New York can receive Emergency Assistance to Families as part of a fuel-assistance program. For program reporting purposes, an emergency-assistance case and an AFDC case receiving an emergency-assistance grant are treated separately. But, the welfare districts and the State later use the case counts to allocate public assistance administrative costs. This has the effect of increasing Federal reimbursement because the total number of cases used to determine the Federal share of administrative costs rises. While there is some extra effort required to authorize an emergency-assistance grant for the AFDC case, an Erie County welfare official said that the extra effort does not double the total effort required to serve that family. Emergency-assistance cases are not counted in Erie County's workload assignments. Furthermore, when a non-Federal case receives a special payment for fuel similar to emergency assistance, no extra case count for cost-allocation purposes occurs. We calculated the fiscal effect of including emergency assistance for fuel cases in the allocation base and found that Federal reimbursement increased by about \$84,500 per year.

New York State officials stated that including emergency assistance for fuel cases in the allocation base does not violate the approved cost-allocation plan.

In the second instance, an error in cost allocation occurred because an accountant developing administrative cost data in an upstate county did not consider case count information as pertinent to cost-allocation data.

--Specifically, a tabulation problem caused the count of general assistance cases to decline steadily over time. This decrease resulted in an overstatement of the percentage that AFDC cases represent in the total caseload. Thus, the Federal share of administrative costs increased. While county officials knew the statistics were inaccurate, the chief accountant stated that he had forgotten that they are used for cost-allocation purposes. As a result, the Federal Government incurred excessive charges to the AFDC program totaling \$314,785 from April 1978 to January 1980. When we informed county officials of the error, corrective action was immediately taken to prevent future mistabulation, and a retroactive adjustment for the entire amount was submitted to the State for action.

The overclaiming of Federal funds steadily increased during April 1978 to January 1980; at the time county officials corrected the problem, the county was overcharging the Federal Government at the rate of \$431,000 per year.

#### Illinois--recipient count and standard caseload

From 1976 to 1980, Illinois allocated welfare administrative costs on the basis of recipient count (i.e., the number of recipients receiving benefits for each program). However, AFDC cases generally have more people in them than non-Federal general assistance cases, and distribution of costs on a recipient-count basis results in a greater portion of administrative costs being allocated to the Federal Government than is warranted by the administrative effort in AFDC. In fact, in a recent review the HHS Audit Agency found that the administrative effort devoted to each category of income maintenance case in Illinois was relatively equal, regardless of the number of persons in a case. The Audit Agency concluded that from January 1977 to July 1979, Illinois' recipient-count method resulted in a \$12,773,871 overcharge to the Federal Government and recommended a disallowance for the full amount of the overcharge.

In July 1980, DCA approved a variation of the case count method-standard caseloads. In Illinois it appears that this method tracks the time and effort expended by workers in the AFDC program more accurately than most caseload or recipient count allocations. This is because, in large counties where Federal and non-Federal public assistance programs exist, ongoing caseworkers (workers who handle cases on the rolls as opposed to application workers) work solely in one program. Thus, allocating by the number of standard caseloads assigned to these workers is similar to direct charging. With oversight to assure that staff work only in one program and that the standard caseloads are the way caseloads are assigned, this method should be equitable for allocating ongoing caseworker salaries.

The salaries of application workers are also allocated by "ongoing" standard caseloads. But, Illinois has not demonstrated that the ongoing standard reflects the distribution of applications' workload. To the extent that the distribution of an application worker's time differs from the overall ongoing distribution, the application worker's salary will be misallocated.

#### Massachusetts--direct charge and weighted case count

Massachusetts' Personnel Resources and Information Management System provides the basis for charging salaries and fringe benefits of income maintenance personnel directly to Federal programs and for allocating indirect costs to those programs. When employees'

normal workload covers several programs, their efforts are charged to the program that absorbs more than 50 percent of their working hours. The salaries of workers who spend 50 percent or less of their time on any one program are allocated to various programs on the basis of the total number of cases receiving benefits from those programs weighted according to the degree of difficulty associated with handling a particular type of case. There can be inequities with this system. For example, if a worker spends 55 percent of his or her time on AFDC cases, all of his or her salary will be charged directly to the AFDC program. Therefore, the AFDC program would be absorbing costs of other programs that the individual is working on, including those that are not federally reimbursable. In effect, the State is directly charging a pool of administrative costs to one program that should be allocated to more than one program.

We performed an analysis of fiscal year 1979 assistance payment costs using the Massachusetts system of allocating costs and a pure-weighted case-count system. The purpose of this effort was to determine the impact each would have on the allocation of administrative costs to the AFDC program in Massachusetts. Under the personnel resources system, total charges to AFDC were \$35,075,423 while a pure-weighted case-count allocation totaled \$34,951,314--a difference of \$124,109 for that period.

The salaries of employees who spend 50 percent or less of their efforts on any one program are charged to various programs based on weighted case count. Although this method accounts for differences in the effort required to administer various types of cases, these weights require continuous surveillance because they can become obsolete due to program and policy changes. In addition, Massachusetts' weighted case count, like straight case count and recipient count, may not reflect the difference in activity levels among public assistance programs.

#### California--time study

California uses individual worker time studies as the basis for allocating administrative costs. Specific staff, primarily case-carrying social services workers, eligibility workers, and their first-line supervisors, record and accumulate time spent on particular programs for 1 month of each calendar quarter. In addition, certain programs which are not of a continuing or on-going nature are time-studied monthly. At the end of the monthly period, worker time is summarized into two pools--social services and income maintenance--and future allocations are made on the basis of time charged to each program included in the cost pool. This basic separation is required because Federal financial participation differs between the two pools. For example, income maintenance costs are distributed among such programs as AFDC and

Medicaid, which are reimbursed by the Federal Government at a rate of 50 cents on the dollar, while social services programs are generally reimbursed at a rate of 75 cents on the dollar.

There can be some drawbacks in a time study system of allocating costs. In order for quarterly time studies to produce accurate cost data, care must be taken to insure that the month chosen is representative of the entire quarter's activities and workers must complete their time studies soon after they perform a function. State officials told us that the counties time study during the middle month of each quarter. This month was chosen after extensive analysis to insure that it is representative of the entire quarter. In addition, the counties continuously monitor the time studies to insure that workers complete them each day. The potential drawbacks of a quarterly time-study system are further mitigated in California by the fact that most county employees work in only one program. According to a State official, about 98 percent of the public assistance caseload is maintained in this manner.

#### HHS EFFORTS TO PROMOTE UNIFORMITY IN COST ALLOCATION

HHS personnel from the Office of Assistant Secretary for Management and Budget informed us that, although the provisions of the welfare cost-allocation guide currently being prepared will not be inserted in regulations, they will be a requirement that States must meet unless States can demonstrate that their proposed or current methods will produce equitable results. States with approved plans will be subject to audit exceptions on claimed costs by OFA and the HHS Audit Agency if the provisions of the guide are not implemented. Further, DCA personnel will be instructed to challenge any new plan submissions or amendments that do not comply with the terms of the guide.

Initial reaction to the guide and the measures to be taken if its provisions are not met has been mixed. Ten States, including New York and Illinois, participated in the task force that prepared the guide and approved it in principle. But, DCA and OFA personnel interviewed in the four regions we reviewed were not supportive of either a standard method of cost allocation or of requiring the use of random moment sampling as the sole method of allocation. In addition, officials in two regions questioned whether a guide, without the force of regulation, would provide sufficient authority for DCA to reject a State cost-allocation plan or for the HHS Audit Agency and OFA to take exceptions to reimbursement claims if its provisions are not met.

We believed that the concerns DCA and OFA personnel raised about the enforceability of the guide without supporting regulations were sufficient to warrant the request of a legal opinion from HHS' General Counsel. In response to our request for such an opinion, the General Counsel stated "The Secretary can issue an enforceable cost allocation policy through an appropriate combination of regulations and other policy issuances." The General Counsel concluded that the appropriate combination of policy issuances and regulations can be determined only on a case-by-case basis. We were assured that, when the proposed cost-allocation guide is provided to the General Counsel for final approval, his office "will give these materials a very careful review in order to assure that the contents of the guide are fully supported by the provisions of the regulations and thus comprise an enforceable Federal cost allocation policy."



## CHAPTER 4

### CONCLUSIONS, RECOMMENDATIONS, AND AGENCY COMMENTS

#### CONCLUSIONS

Due to a lack of clear definition of review responsibilities, staffing limitations, and comprehensive review guidelines, neither DCA nor OFA is effectively examining State cost-allocation plans. For many of these reasons, OFA is not adequately reviewing State reimbursement claims. Thus, HHS does not have assurance that the Federal Government bears only its fair share of AFDC administrative costs.

This longstanding problem, which both we and HHS have been reporting since 1964, should be corrected. Our review of State efforts to identify, accumulate, and allocate AFDC administrative costs indicated that the failure of DCA and OFA to identify cost-allocation deficiencies in the New York and Massachusetts plans may have resulted in potential overcharges to the Federal Government of \$6.6 million. Furthermore, due to the limited scope of our review, it is likely that there are overpayments and allocation-plan deficiencies in these and other States that have not yet been detected.

The deficiencies we found are a result of HHS:

- Not providing OFA with sufficient staff to conduct comprehensive reviews of State claims for cost reimbursement. This is in spite of the fact that millions of dollars in erroneous State reimbursement claims have been detected by both us and the HHS Audit Agency over the past 15 years.
- Continuance of an organizational structure that allows both DCA and OFA to monitor the day-to-day implementation of cost-allocation plans with neither agency knowing who is responsible for the function. Such monitoring must be performed in order to detect changes in organizational structure that affect cost allocations, and to identify conditions that affect the cost-allocation plan. Any undetected change could result in overcharges to the Federal Government.
- Failure to provide both DCA and OFA analysts with review guidelines that specifically delineate what elements of proposed cost-allocation plans are to be reviewed, how the review is to be performed, and how intensive an analysis is to be made.
- Failure to instruct DCA and OFA to perform reviews at the local level where most administrative costs are incurred.

DCA and OFA officials tend to rely on the HHS Audit Agency periodic reviews to detect any deficiencies that their analysts have missed. But, DCA and OFA--not the Audit Agency--are responsible for assuring that the cost-allocation plans are properly prepared and implemented. Thus, DCA and OFA analysts should identify the deficiencies before HHS auditors conduct their reviews.

Because the problems encountered have existed since 1964, we believe that HHS management should make a firm commitment to come to grips with these problems and take corrective action. An organizational decision should be made specifying DCA's and OFA's responsibilities for monitoring State efforts to implement the provisions of cost-allocation plans. It would seem appropriate that OFA be given specific responsibility for monitoring portions of the plan that relate to AFDC while DCA monitors plan elements relating to more than one program, and coordinates the efforts of Principal Operating Components in the area of cost-allocation plan compliance reviews. Once such a decision is made, both DCA and OFA analysts should be given appropriate guidance, training, and staffing to perform reviews to identify, correct, and ultimately preclude the recurring deficiencies in cost-allocation plans and reimbursement claims. HHS should not be relying so heavily on its audit group to identify deficiencies--a task that is specifically DCA's before cost-allocation plan approval and, because of the current confusion, both DCA and OFA's after plan approval.

Until recently, HHS management had not taken steps to develop a uniform cost-allocation methodology for States to insure that programs are charged administrative costs according to benefits received. As a result, HHS does not have an adequate basis to make valid managerial judgments on the composition of costs or the relative effectiveness of States in controlling administrative costs. To overcome this, HHS has developed a standard set of cost principles, procedures, and methodology to be used in establishing welfare cost-allocation plans, which headquarters officials contend States will be required to comply with unless they can demonstrate that their methods will produce equitable results. If States do not comply, their cost-allocation plans will be subject to disapproval and their cost-reimbursement claims subject to audit exceptions.

We believe that HHS must be able to determine whether the administrative costs it is paying represent a fair share of the costs of AFDC operations. Furthermore, in fulfilling its responsibility to insure the efficient operation of AFDC, HHS must have comparable cost data to identify AFDC operations warranting in-depth study. HHS' draft cost-allocation guide is the first step in insuring equitable charges and good management. The uniform methods prescribed in the guide should produce accurate cost data and simplify the cost-allocation plan approval and monitoring

process. This first step must, however, be followed by active enforcement of the guide's provisions; otherwise the unacceptable situation will not change. Thus, we agree with HHS' use of the guide in approving plans and taking exception to cost allocations that do not conform. Only when a State can clearly demonstrate that an alternative method will result in an equitable allocation, provide useful management information, and allow effective oversight do we believe HHS should allow exceptions to the guide's provisions.

#### RECOMMENDATIONS TO THE SECRETARY OF HHS

We recommend that the Secretary

- define the specific cost-allocation plan review and monitoring responsibilities of DCA and OFA;
- develop adequate guidelines for DCA and OFA to use in future cost-allocation plan review efforts;
- evaluate existing staffing and workload levels to assure that both DCA and OFA have enough technical capacity and staff to effectively review, approve, and monitor the implementation of cost-allocation plans and quarterly claims for reimbursement;
- issue guidelines establishing a system of uniform cost principles, procedures, and methodology for all welfare cost-allocation plans;
- instruct DCA and OFA to conduct comprehensive reviews of State cost-allocation plans to identify areas in which the Federal Government may be bearing more than its fair share of AFDC administrative costs; and
- instruct DCA and OFA to follow up on our findings to assure that appropriate recovery of Federal funds occurs.

#### AGENCY COMMENTS

HHS generally agreed with our findings and recommendations and indicated that it is taking or planning a number of steps to improve State cost-allocation plans, and to strengthen its reviews of new plans and its monitoring of State compliance with existing plans. With regard to our specific recommendations, HHS stated that:

- The general cost-allocation plan review and monitoring responsibilities of DCA and OFA are clearly defined. But, there appears to be some confusion concerning the specific responsibilities of DCA and OFA relative to the plan approval and monitoring process. Additional instructions will be issued to clarify these responsibilities.
- Some guidance for HHS staff on the reviews of proposed plans and the reviews of claims made under these plans has been issued. Further, the Office of Grants and Procurement has conducted several training sessions for DCA staffs on the review of the plans. But, it agrees that additional guidelines would be useful in strengthening the effectiveness of the reviews. These guidelines would be a logical extension of the cost-allocation guide HHS is currently developing for State public assistance agencies and will be developed after the State guide is finalized.
- It agrees that an evaluation of the current staffing levels assigned to these functions is needed. It plans to do this as part of a comprehensive management review of these functions to identify the specific changes needed to make them more effective and efficient. This review will cover all HHS public assistance programs (AFDC, Medicaid, Social Services, etc.) and will include a reassessment of the current organizational responsibilities for carrying out the functions, staffing levels, the frequency and scope of the reviews, and coordination procedures.
- It concurs with the recommendation that HHS issue guidelines establishing a system of uniform cost principles, procedures, and methodology for all welfare cost-allocation plans. It will continue its efforts to develop a comprehensive cost-allocation guide for public assistance programs, and hopes to distribute a new draft of the guide to a broad group of State and Federal officials this summer and to finalize the guide in the fall.

It has also recently published a proposed regulation on the submission and approval of public assistance cost-allocation plans. This regulation consolidates all current program regulations on these subjects; clarifies and provides more definitive guidance on the submission, approval, and implementation of the plans; and streamlines the procedures for cost disallowances and appeals related to the plans.

--It agrees in principle that more comprehensive reviews of State cost-allocation plans are needed. However, as indicated in the report, the ability of the DCAs and OFA (as well as the Department's other POCs responsible for administering public assistance programs) to conduct more comprehensive reviews in this area would depend on the adequacy of their staffing levels.

--It agrees that DCA and OFA should be instructed to follow up on our findings to assure that appropriate recovery of Federal funds occurs. The Department has already recovered the funds relating to a number of specific findings noted in the report. It will take action to recover the remaining funds and will require modifications to the defective cost-allocation plans cited in the report.

#### State Comments

Draft copies of this report were provided to officials in the States of California, Illinois, Massachusetts, and New York. Formal comments were not received within the time allowed under Public Law 96-226 and are not included in the report. We did, however, discuss the draft report with officials from California and New York and addressed all of the issues raised by them.

EXPANDED ELIGIBILITY OPERATIONAL REVIEW

The New York State Department of Social Services Office of Audit and Quality Control conducts Expanded Eligibility Operational Reviews (EEOR) to obtain valid error rates for individual income maintenance centers in New York City. The entire cost of the EEOR program, about \$1,200,000 annually, is charged to the AFDC program, although about 50 percent of the cases reviewed in EEOR relate to the non-Federal New York State Home Relief program. Audit and Quality Control officials initially informed us that this claiming practice was justified because Home Relief cases are only included in the EEOR sample to determine if any Home Relief recipients should, in fact, be receiving AFDC benefits. New York State's director of the EEOR program told us, however, that AFDC and Home Relief cases receive an analysis of equal depth in the EEOR process. Our review of 5 of 18 EEOR reports issued confirms this. Payment error rates, overpayments, identification of ineligible, and the methods used by auditors to identify errors are all analyzed in the Home Relief segment of the EEOR reports. Furthermore, Home Relief cases reviewed by EEOR were selected at random and included childless individuals who cannot be eligible for AFDC.

We discussed these facts with Audit and Quality Control officials and they agreed that some EEOR costs should be allocated to the Home Relief program. The details of how such an allocation should be developed were left for future discussion with HHS officials. One option would be to use HHS' proposed cost-allocation procedures, which indicate that quality control program costs should be allocated on the number of cases reviewed. Following that rule, about 50 percent of all EEOR costs could be allocated to the Home Relief program with a savings to the Federal Government of about \$300,000 per year. But, in the absence of such a procedure, EEOR costs should be charged to the AFDC program only to the extent the State can show that its review of cases benefits AFDC.

In a 1979 inquiry, DCA questioned the fact that Audit and Quality Control did not charge any of its audit costs to Home Relief. DCA did not detect the fact that EEOR costs are also allocable to Home Relief because its inquiry was limited to an examination of selected titles of Audit and Quality Control reports for an indication of benefit to Home Relief. Had either OFA or DCA questioned the nature of each review charged to AFDC, they would have discovered the misallocation. OFA and DCA regional officials agree that EEOR costs should be allocated to the Home Relief program.

AFDC-FOSTER CARE CASE COUNT

According to New York State's local cost-allocation plan, the costs for AFDC-foster care eligibility determinations are to be accumulated in the income maintenance cost pool for allocation to AFDC by case count. The case count used to allocate costs should, in turn, include the foster care eligibility determination cases charged to the income maintenance cost pool. However, we found instances where a local social services district included eligibility determination costs in the services cost pool, rather than the income maintenance cost pool, but included foster care cases in the AFDC income maintenance case count. This allowed the district to get reimbursement from both the AFDC administrative cost pool and the services cost pool.

The system used is as follows: The AFDC-foster care eligibility determination costs are charged to the services cost pool, which, in turn, are either charged to AFDC through a time study of worker activity or to title XX for 75-percent reimbursement if a local district has not spent all its title XX funds. However, the applicable number of AFDC-foster care cases is included in the case count, which is applied to the income maintenance cost pool for distribution of costs to AFDC. As a result, a district that includes AFDC-foster care cases in the income maintenance case count, while including the corresponding costs in the services cost pool, will receive more Federal reimbursement than it is entitled to for AFDC-foster care administration. The Federal Government pays for the actual AFDC-foster care expenditure through the services cost pool, and then it pays an extra share of income maintenance administrative costs because AFDC-foster care cases inflate the case count allocation base. We calculated the amount of increased income maintenance Federal reimbursement for Erie County, New York, as being about \$4,000 for 1 month. The 12-month projection of those costs shows a \$48,000 increase in Federal reimbursement.

This problem does not exist in New York City, the State's largest social services district, because it includes neither AFDC-foster care costs nor cases in its income maintenance allocation. City officials stated that it would be incorrect to include AFDC-foster care cases in the income maintenance allocation base if the salaries of staff who perform AFDC-foster care eligibility determinations are not charged to the income maintenance cost pool. We agree.

OFA and DCA officials also agree that inclusion of AFDC-foster care cases in the income maintenance allocation base, when administrative costs are in the services cost pool, is an inequitable procedure. But, they have not yet initiated corrective action.

DIRECT CHARGING ISSUES

New York State's local district cost-allocation plan does not provide for directly charging applicable costs to either AFDC or Home Relief programs; instead, it accumulates these costs in the income maintenance cost pool and allocates them by case count. There are, however, costs that are readily identifiable as benefiting only one program and should be directly charged to it. Federal Management Circular 74-4 requires direct charging where the accounting effort required to identify and charge the direct costs is reasonable for the amount of costs being charged. We believe the following four cases--involving three districts' Employment Assistance Units and New York City's income maintenance medical examination program, crisis intervention program, and Adult Foster Care program--meet the reasonableness criterion.

EMPLOYMENT ASSISTANCE UNITS

In three local social service districts (New York City, Albany County, and Erie County), we found that the cost of operating employment assistance units was included in the income maintenance cost pool and allocated to the AFDC program. But, the services performed by these employment units are for State Home Relief clients--AFDC clients receive similar services through the Work Incentive program, which is not included in the income maintenance cost pool. Thus, the employment activities for Home Relief clients are being allocated to the Federal Government and no corresponding benefits are received. Direct charging of the cost of operating these employment units to the States' Home Relief program would save the Federal Government over \$500,000 a year, with no offsetting increase in Federal cost from direct charging AFDC employment activities, as the Federal Government is already being directly charged through the Work Incentive program.

New York State officials reserved comment on this issue until they could discuss it with the localities involved. OFA and DCA agree that employment-assistance units should be directly charged, where appropriate, but have not yet initiated corrective action.

INCOME MAINTENANCE  
MEDICAL EXAMINATIONS

Applicants for public assistance in New York may be required to take medical examinations to determine their employability. The costs of the medical examinations that benefit the AFDC Work Incentive program can be directly charged to the Work Incentive program for 90-percent Federal reimbursement. The non-Work Incentive program medical examinations for AFDC and Home Relief recipients are allocated by the overall AFDC and Home Relief caseload. In New York City, we found that the pooled medical examination costs are readily identifiable with the program they



were ordered for. We also found that, while 89 percent of the pooled medical examinations are for Home Relief applicants, 71 percent of these examinations are allocated to AFDC (71 percent is the AFDC caseload percentage in New York City for March 1980).

A New York City claims official said that direct charging these costs to the appropriate program would be a simple administrative task. If this was accomplished, we estimate that the Federal Government could save about \$251,000 a year. On September 17, 1980, DCA region II officials instructed New York State to respond to this allocation issue and consider whether the materiality of the costs warranted a change to New York's cost-allocation plan. New York State responded that, while it could not readily obtain cost data without reviewing local district documentation, it was in the process of preparing a change to its cost-allocation plan that would provide for the direct charging of all medical examination costs.

#### CRISIS INTERVENTION PROGRAM

New York City's Crisis Intervention program provides emergency housing services to public assistance clients. Although this program has two distinct units, one to serve adults under the Emergency Assistance to Adults program and one to serve families under the Emergency Assistance to Families program, the costs of these two units are pooled and allocated to the Federal categories of AFDC and Emergency Assistance to Families and to the non-Federal categories of Home Relief and Emergency Assistance to Adults on the basis of the total AFDC and Home Relief caseload. The costs of the unit serving adult cases are higher than the family unit's costs. But, allocating the emergency-assistance costs using the AFDC and Home Relief caseload (71 percent Federal) overstates the Federal share of Crisis Intervention program costs. We estimate that directly charging the family and adult units of New York City's Crisis Intervention program would save the Federal Government about \$190,000 a year.

New York City officials agreed that the two units of its Crisis Intervention program are readily identifiable and, thus, directly chargeable although their current cost-allocation plan does not provide for direct charging. New York State officials wanted to discuss this matter with New York City officials before commenting to us officially. OFA and DCA regional officials agreed that these costs should be directly charged but they have not yet begun corrective action.

ADULT FOSTER CARE

New York City provides services, such as foster care placement and counseling, to adults in voluntary and proprietary foster homes. The administrative cost of this effort is readily identifiable to the benefiting Federal, State, or city program because separate units in the New York City Department of Social Services provide the services and can directly charge them either to the Federal Government under title XX or to non-Federal categories. But, the State's cost-allocation plan allows local districts to spread the administrative cost of such services among all public assistance programs, including AFDC. This provision in the cost-allocation plan allows New York City to allocate about \$473,000 per year to the AFDC program, despite the fact that the AFDC program receives no benefits from the adult foster care activity. Since New York City has spent up to its title XX ceiling in recent years, directly charging either title XX or benefiting non-Federal programs would save the Federal Government the entire \$473,000 annually.

New York City cost allocation officials agreed that Adult Foster Care administrative costs should not be allocated to the AFDC program and are investigating the possibility of charging the costs to Medicaid. We do not believe that such a charge is appropriate because the institutions and homes adult foster care clients are placed in are not medical facilities.

In addition to the direct charging issue, this case has a compliance issue as well. The approved cost-allocation plan requires local districts to include adult foster care cases in the income maintenance cost pool allocation base, as well as including adult foster care administrative costs in that cost pool. While New York City included the adult foster care costs, it omitted the corresponding cases from the allocation base. Had New York City included those cases, the Federal share of all costs in the income maintenance cost pool would have been lower. As adult foster care caseload data were not immediately available, we did not estimate the increase in Federal reimbursement resulting from New York City's noncompliance with the approved cost-allocation plan.

Regional OFA and DCA officials agree that New York City's adult foster care administrative costs are directly chargeable to title XX or a non-Federal category and that New York City violated provisions of the approved cost-allocation plan by not including the adult foster care case count in the income maintenance allocation base. DCA and OFA have yet to initiate corrective action, however.

DAY-CARE PLACEMENT AND PURCHASE-OF-SERVICE COSTS

Title IV-A generally prohibits States from charging the costs of providing social services to the AFDC program as an administrative expense, with no exception for day-care services that are not related to administration of the Work Incentive (WIN) program. But, New York City has been allocating a portion of its day-care placement and day-care purchase-of-service administrative costs to AFDC administration since 1976.

The costs New York City has been charging to AFDC administration are incurred by New York's Agency for Child Development, which places AFDC children in family and group day-care facilities and supervises the contracts New York City maintains with day-care providers. The agency's director of field operations informed us that decisions on providing placement services have no impact on the city's determination of whether a child will be eligible for AFDC or whether a day-care expense, once the child is placed, will be included as a work-related expense in an AFDC budget calculation. Thus, except for receiving referrals from AFDC eligibility workers to provide day-care services to recipients, New York City's Agency for Child Development has little connection with AFDC program administration.

Most child development administrative costs are allocated to title XX. We believe that the costs now being charged to AFDC should be charged to title XX, since these costs do not benefit AFDC administration but do provide a title XX service.

We estimate that the annual Federal share of day-care placement and purchase-of-service administrative costs allocated to AFDC program administration is about \$334,000, and none of these costs are related to the WIN program. This estimate is a 12-month projection of actual Federal reimbursement for March 1980. If these costs are disallowed from the AFDC program and charged to title XX, the full disallowance should be a saving to the Federal Government because these costs would then be subject to New York's title XX ceiling, which has been exceeded every year that these day-care costs have been allocated to title IV-A.

At the time of our review, regional OFA officials had not questioned the allowability of day-care placement and purchase-of-service administrative costs as a charge to AFDC. But, when advised about it, they agreed that their allowability was suspect and said that they would review the propriety of these charges. State officials would not comment on the propriety of these charges, saying that they warranted further examination. New York City officials could not understand why we were questioning these charges. They reasoned that, if the actual cost of day care was chargeable to AFDC as a program expense, the cost of placing a child into day care should be allowable as an AFDC administrative expense.

#### APPENDIX IV

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We believe there is a distinction between program costs and administrative costs governed by the provisions of title IV-A. Specifically, administrative cost reimbursement is prohibited under this title for social services, whereas reimbursement is available for the actual cash assistance payments that cover social services under the AFDC program. We believe the magnitude of the costs involved warrants a review, such as OFA regional officials are proposing on the allowability of day-care placement costs as a charge to AFDC administration.



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

MAR 1981

Mr. Gregory J. Ahart  
Director, Human Resources  
Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request of January 29, for our comments on your draft report entitled, "AFDC Administrative Cost Allocation: HHS Taking Steps to Improve Accuracy But Increased Oversight Needed." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

Department officials did note some technical matters relating to specific aspects of the report; however, these problems have been resolved informally with your office and appropriate clarification will be reflected in the final report.

Thank you for the opportunity to comment on this draft report before its publication.

Sincerely yours,

*Bryan B. Mitchell*  
Bryan B. Mitchell  
Acting Inspector General

Enclosure

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
COMMENTS ON GAO DRAFT REPORT ENTITLED  
"AFDC ADMINISTRATIVE COST ALLOCATION:  
HHS TAKING STEPS TO IMPROVE ACCURACY  
BUT INCREASED OVERSIGHT NEEDED"

GENERAL COMMENTS

We generally agree with the findings and recommendations in the draft report. As noted in the report and in our comments on GAO's recommendations, the Department is taking, or is planning, a number of steps to improve the cost allocation plans submitted by State public assistance agencies and to strengthen the Department's reviews of the plans and its monitoring of State compliance with the plans.

GAO RECOMMENDATION

- (1) The Secretary should "...define the specific cost allocation plan review and monitoring responsibilities of DCA and OFA."

DEPARTMENT COMMENT

We believe that the general responsibilities of the DCAs and OFA in this area are clearly defined. The DCAs are primarily responsible for reviewing and approving the cost allocation plans, while the Department's Principal Operating Components--the Social Security Administration, the Office of Human Development Services, the Health Care Financing Administration, and the Office of Child Support Enforcement--are primarily responsible for reviewing the claims submitted under the approved plans and for monitoring State compliance with the plans. Under the Department's recently issued audit resolution policy, the DCAs are also responsible for resolving "cross-cutting" problems disclosed during audits or other reviews of a State's compliance with its approved cost allocation plan.

We agree, however, that there appears to be some confusion concerning the specific responsibilities of the DCAs and the HHS Principal Operating Components relative to the plan approval and monitoring process, and will issue additional instructions to further clarify these responsibilities.

GAO RECOMMENDATION

- (2) The Secretary should "...develop adequate guidelines for DCA/OFA use in future cost allocation plan review efforts."

DEPARTMENT COMMENT

Some guidance for Department staff on the reviews of proposed plans and the reviews of claims made under the plans has been issued. This includes an interim guide for evaluating the plans, and a guide for

use by Regional OFA staff when reviewing a State's quarterly expenditure reports. In addition, the HHS Office of Grant and Procurement has conducted several training sessions for DCA staffs on the reviews of the plans.

However, although some guidance in this area has been issued, we agree that additional guidelines would be useful in strengthening the effectiveness of the reviews. These guidelines would be a logical extension of the cost allocation guide we are currently developing for State public assistance agencies and will be developed as soon as possible after the State guide is finalized.

#### GAO RECOMMENDATION

- (3) The Secretary should "...evaluate existing staffing and workload levels to assure that both DCA and OFA have the technical capacity and numerical strength to effectively review, approve, and monitor the implementation of cost allocation plans and claims for reimbursement."

#### DEPARTMENT COMMENT

We agree that an evaluation of the current staffing levels assigned to these functions is needed. We plan to do this as part of a comprehensive management review of these functions to identify the specific changes needed to make them more effective and efficient. This review will cover all HHS public assistance programs (AFDC, Medicaid, Social Services, etc.) and will include a reassessment of the current organizational responsibilities for carrying out the functions, staffing levels, the frequency and scope of the reviews, and coordination procedures.

#### GAO RECOMMENDATION

- (4) The Secretary should "...continue with current plans to issue guidelines establishing a system of uniform cost principles, procedures, and methodology for all welfare cost allocation plans".

#### DEPARTMENT COMMENT

We concur with this recommendation and will continue our efforts to develop a comprehensive cost allocation guide for public assistance programs. We hope to distribute a new draft of the Guide to a broad group of State and Federal officials this summer and to finalize the guide in the fall.

We have also recently published a proposed regulation on the submission and approval of public assistance cost allocation plans. This regulation consolidates all current program regulations on these subjects; clarifies and provides more definitive guidance on the submission, approval and implementation of the plans; and streamlines the procedures for cost disallowances and appeals related to the plans.

GAO RECOMMENDATION

- (5) The Secretary should "...instruct DCA and OFA to conduct comprehensive reviews of State cost allocation plans to identify areas in which the Federal government may be bearing more than its fair share of AFDC administrative costs."

DEPARTMENT COMMENT

We agree in principle that more comprehensive reviews of the plans are needed. However, as indicated in the report and in recommendation (3), the ability of the DCAs and OFA (as well as the Department's other Principal Operating Components responsible for administering public assistance programs) to conduct more comprehensive reviews in this area would depend on the adequacy of their staffing levels.

GAO RECOMMENDATION

- (6) The Secretary should "...instruct DCA and OFA to follow up on GAO's findings to assure that appropriate recovery of Federal funds occurs."

DEPARTMENT COMMENT

We agree with this recommendation. The Department has already recovered the funds relating to a number of the specific findings noted in the report. We will take action to recover the remaining funds and will require modifications to the defective cost allocation plans cited in the report.



**DATE**  
**ILME**